
Minutes

Board of Natural Resources Special Meeting

June 29, 2005
Natural Resources Building, Olympia, Washington

BOARD MEMBERS PRESENT BY PHONE

Terry Bergeson, Superintendent of Public Instruction

Ted Anderson, Commissioner, Skagit County

R. James Cook, Interim Dean, Washington State University, College of Agricultural, Human, and Natural Resource Sciences

BOARD MEMBERS PRESENT

Doug Sutherland, Commissioner of Public Lands

BOARD MEMBERS ABSENT

Bob Nichols, for Governor Christine Gregoire

Bruce Bare, Dean, University of Washington, College of Forest Resources

CALL TO ORDER

Chair Sutherland called the meeting to order at 3:05 p.m. on, June 29, 2005, in Room 461 of the Natural Resources Building.

LAND TRANSACTIONS (ACTION ITEM)

Blue Mountain Purchase and Exchange #86-074800 (Handout1)

Mr. Winslow began by presenting the Blue Mountain Land Exchange and Purchase. He brought the Board's attention to the fact that there had been some revisions to the resolution because the private party needed to retain approximately 173-acre parcel on the south end in Skagit County; the revisions changed the acreage and some values. Trillium wanted to retain the 173 acres and the trusts were fine with that. DNR will be obtaining an easement grant from Trillium. These changes resulted in a reduction of the acquisition value so the purchase price is lower. The Common School trust will receive less land but will also put forth less cash.

Mr. Winslow discussed the transaction component values from a graph showing that DNR would be using \$6,285,000 of property along with \$1,912,000 dollars to obtain this property. \$200,000 dollars of that exchange value would go back to DNR to cover the costs of the transaction. The property value that DNR would be picking up in the transaction is \$7,997,000 along with \$200,000 in cash, which would go into the Resource Management Cost Account (RMCA).

Mr. Winslow went on to discuss the private market value explaining that the appraised value is \$7,936,000 and the acquisition value at \$7,997,900. He said that the private forestland land transaction value is \$61,900 more than the appraised market value, but within range of error of appraisals. He asked the Board to consider establishing market value at \$7,997,900 for the transaction. Mr. Winslow said that the Common School appraised value was balanced with -\$7,000 change; -0.1%. The total (all trusts) balanced with \$0 change; 0.0%. The Capitol Building trust would be balanced with an increase of \$4,000 change; +3%. Normal School trust balanced with an increase of \$3,000 change; +5%.

Mr. Winslow talked about the acreage summary stating that all three trusts have reductions in acreage due to acquired property having higher per acre property values. The Common School trust acreage was reduced by 3,346 acres, Capitol Building trust acreage reduced by 100 acres, and the Normal School trust acreage reduced by 75 acres. He talked about the timber harvest volume and the projected volumes over time. He indicated that there would be asset repositioning from low site into high site forestland with lower management and logging costs, a gain in projected harvestable volume for the 75-year period at 82 million board feet. There would also be a substantial increase in potential timber harvest volumes for all time periods beyond 2010. Mr. Winslow summarized the cost reductions conveying that this transaction would do the following:

- Reduce amount of property line by 55 miles
- Provide access to trust land in Snohomish County
- Consolidate road miles into fewer locations; DNR staff could more efficiently manage the road network
- Provide alternative rock resources for trusts; potential for rock royalty payments
- Reduce hauling costs for some existing trust lands
- Reduce "edge effect" costs and lost potential volumes
- Terrain less steep; reduction in timber harvest costs

Mr. Winslow informed the Board that the Trust Value total gains would be \$3,277,000, a gain of 65%. Common School trust gain would be \$3,140,000, a gain of 82%. Capitol Building trust gain would be \$96,000, a gain of 165% and the Normal School trust gain would be \$41,000, a gain of 171%.

Mr. Anderson asked if the rocks were included in the mineral resource overlay for the Snohomish County comprehensive plan.

Chair Sutherland asked if the overlay was applied to forest lands or is it strictly for non-forested lands.

Mr. Anderson explained that in his county if you wanted to mine the rock resources and they were in a mineral resource overlay you would have to apply for a comprehensive plan amendment.

Ms. Bergeson asked what the implication of Mr. Anderson's question was in regard to this decision.

Chair Sutherland explained that if there is rock located on lands in a county comprehensive land use plan that is not identified as a mineral resource, then the comprehensive plan has to be changed to permit extraction of rock by DNR.

Chair Sutherland said that DNR did not calculate the value of possible rock so there's the possibility of increased value on the lands that the Department is acquiring.

Mr. Winslow added that there are also provisions in the agreement that allows DNR to extract up to 60,000 cubic yards per year for trust usage.

MOTION: Commissioner Anderson moved to approve Resolution #1162.

SECOND: Ms. Bergeson seconded.

DISCUSSION: Chair Sutherland wanted to acknowledge DNR staff for their hard work on this difficult transaction.

Mr. Anderson wanted to commend Chair Sutherland and DNR staff for their hard work.

ACTION: Motion passed unanimously.

Paterson Acquisition #08-077525 (Handout2)

Ms. Armbruster began by presenting the Paterson Orchard acquisition located in Benton County. She gave the following summary of the property:

1,143 acres:

- 242 acres in crop circles
- 54 acres in cherries
- 36 acres in apricots
- 524 acres in apples
- 287 acres undeveloped or in other uses

The property is irrigated under three certificates from Department of Ecology. The water source is the Columbia River and is delivered through a private irrigation association. The property is located in the proposed "Horse Heaven Hills" appellation area for wine grapes; Columbia Crest and Chateau Ste Michelle have vineyards in the area. Ms. Armbruster stated that the seller is reserving the 2005 fruit crop and that the property would be leased at public auction. The offer price is \$6,800,000. However, an appraisal is not yet complete and the final price will be determined by the outcome of the appraisal and review process. The offer price was determined by internal investment analysis and local knowledge of market conditions. The property value is in water and location. Existing fruit trees are mostly older varieties and likely to be replaced. Some or all of the property may be converted to vineyard.

Ms. Armbruster went on to discuss potential income:

- Two crop circles are under lease through November 2008. The state will receive a pro-rated portion of 2005 income; thereafter, income will be approximately \$100,000 per year, depending on the type of crops planted.
- Cash flow on the current orchard should be about \$300,000 per year, which combined with the circle income is a return of approximately 5.9%.
- Once older trees and the circles are replaced with new varieties and/or vineyards, income is estimated to be about \$600,000 per year, or a return of 8.8%.

She indicated that this acquisition would add productive agricultural property to the Common School trust portfolio, assist with diversification goals, and provide lease income.

Chair Sutherland added that he had toured the property and that trees had been removed. He explained that there are corners where the former owner had put in an airstrip. He said that once the management plan is together the land would be put into production possibly as a vineyard.

Ms. Armbruster informed the Board that because she was bringing this acquisition to the Board earlier than usual in the process, the water rights and reliability of the water association had not been fully investigated. If there were any problems in either of those areas that couldn't be resolved then the project would be reconsidered.

Mr. Anderson asked if water rights had been used historically without interruption.

Ms. Armbruster said yes on most of the property. The 287 acres of undeveloped land is still being looked into.

MOTION: Ted Anderson moved to approve Resolution #1166.

SECOND: Jim Cook seconded.

ACTION: Motion passed unanimously.

TIMBER SALES (Action Item)

Proposed Timber Sales for August 2005 (Handout 3)

Mr. Tweedale presented the June 2005 sales results:

15 sales offered & 14 sold; 69.7mmbf offered & 64.9 sold; \$18.9 million minimum bid offered & \$22.4 million sold; \$271/mbf offered & \$346/mbf sold; average number of bidders, 5; 28% above minimum bid.

He said there was no indication of softening in the market and he predicted a fairly strong summer.

He said reviewed the FY05 sales results stating that there were approximately 600 mmbf sold worth \$206 million with an average of \$345/mbf. He said the Department sold 30 million board feet more than the target of 570. He explained that right now they were at \$56 per thousand board feet over the sustainable harvest calculation value to date.

Proposed sales for August 2005:

16 sales at 56.2 mmbf; \$18.4 million minimum bid; average \$292/mbf.

Mr. Tweedale said there were no SEPA comment letters.

Mr. Cook asked if the Catamount timber sale was included in this month's package.

Mr. Tweedale explained that the Catamount timber sale would be discussed when all the Board members were together at the September meeting.

Chair Sutherland said he would be meeting with the Tribal Chair for the S'Klallam Tribe and looking at the sale prior to discussions.

Chair Sutherland talked about the Boomer sale and informed the Board that they would be touring it at the August retreat.

Mr. Tweedale noted that the Herbert Mill, which is located on the Oregon/California border purchased the Boomer sale.

MOTION: Jim Cook moved to approve the August 2005 timber sales.

SECOND: Ms. Bergeson seconded.

ACTION: Motion passed unanimously.

Assignment of Obstruction Pass (Handout 4)

Mr. Challstedt began by saying that the property is located in San Juan County on Orcas Island; it includes 83 acres and over one mile of shoreline. He gave an overview of the transaction explaining why the Board's approval is necessary for this project. Supplemental legislation passed last month amended the Trust Land Transfer budget bill to allow the Department to lease three projects to the receiving agencies instead of transferring them in fee. The three properties are Obstruction Pass and Point Lawrence in San Juan County to be leased to State Parks, and Maury Island to be leased to King County.

The lease value is to be treated as timber value and deposited to the Common School Construction Account.

He explained that the Department plans to enter into leases on the three properties. Board approval is not required as the Commissioner has authority to enter into such leases on behalf of the Department.

Mr. Challstedt stated that one of the properties, Obstruction Pass, also holds an Interagency Committee for Outdoor Recreation (IAC) recreation site lease and a recreation trail and parking easement executed in the 1970's with duration into the 2020's. The lease and easement is by and between the Board of Natural Resources, acting by and through the Commissioner of Public Lands representing the trustee of the land held in trust, and the Department of Natural Resources, acting by and through the Supervisor of the Department of Natural Resources as the lessee/grantee. The IAC lease and easement may not be assigned without written approval of the Trust as represented by the Board. The desired outcome is for State Parks to enter into a 50-year lease on the entire property and assume the Departments interest and responsibilities as identified in the lease and easement. State Parks has agreed to accept this assignment of responsibility and the new 50-year lease contract provides for this outcome.

Board approval is requested to allow the Department to assign the IAC lease and IAC easement to State Parks to manage along with the new 50-year lease currently being proposed.

Chair Sutherland added that the appraised value was \$5,680,000.

MOTION: Ted Anderson moved to approve the Obstruction Pass Assignment.

SECOND: Ms. Bergeson seconded.

ACTION: Motion passed unanimously.

Meeting adjourned at 4:00 p.m.

Approved this ____ day of _____, 2005

Doug Sutherland, Commissioner of Public Lands

Bob Nichols for Governor Christine Gregoire

Bruce Bare, Dean, University of Washington

R. James Cook, Dean, Washington State University (Interim)

Terry Bergeson, Superintendent of Public Instruction

Ted Anderson, Commissioner, Skagit County

Attest:

Sasha Lange, Board Coordinator